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A BILL FOR THE NATIONALIZATION OF RAILROADS.

"Democracy, beginning in the Mississippi Valley, is seeking now a perfect impersonal transportation machine."—JOHN FINLEY.

The great Mississippi Valley from the Alleghanies to the Rockies and from the Lakes to the Gulf dominates the Federal Government. It sends 231 of the 435 Representatives and 48 of the 96 Senators to Congress. In its confines are 24 of the 48 states. It has an area of over a billion acres of land—over one-half of the United States. It has fifty million people—over one-half of the nation. Some day it will have two hundred and fifty million. It contains a new race of men—fused of many nations—strong, enduring, resilient.¹ To it and the South, as Elihu Root said in a speech at Philadelphia on March 23rd, 1915, "the sceptre has passed."

The vast products of that Valley, ever growing greater, reach the eastern and foreign markets chiefly by railroads. The railroads are the warp and woof of its existence, political, industrial and social. Napoleon said to Talleyrand, "What is America?" Talleyrand replied, "A body without bones." But if that was once true, it is true no longer, for as an American has remarked the bones have now formed and they are bones of steel—the railroads.

The Mississippi Valley has one hundred and sixty thousand miles of railroad—two-thirds of the railroads of the country. But it has no control over those railroads. Of the two great railroad systems running to the Atlantic Coast, one is in the feeble hands of

¹ President Hadley of Yale, in a remarkable little book, published a few months ago, discussing the economic and political problems of the day, said: "In the valleys on either side of the Ohio River, America witnessed for the first time the growth of commonwealths that had never been colonies but grew up to statehood independently; communities that had never known crown governors and crown grants, but had developed under the American flag and the pre-emption law. Owing to the conditions under which they were founded the western communities were intensely patriotic and intensely convinced of the essential equality of all mankind. Under the operation of these causes there arose a new democracy different from anything which was readily conceivable by an earlier generation." *Undercurrents in American Politics*, p. 20.

the third generation of a New York family, which originally dominated it: the other is in the iron grasp of Philadelphia railroad men, who allow nothing to escape. The prosperity and very existence of the vast population of that Valley depend upon the railroads. And yet it has no control. Of the eight great railroad systems (New York Central; Pennsylvania; Illinois Central; Chicago, Milwaukee & St. Paul; Chicago & Northwestern; Union Pacific; Southern Pacific; and Atchison, Topeka & Santa Fé) having 117 directors, only 1 lives in Iowa; 1 in Wisconsin; 3 in Kansas; 16 in Illinois, and 2 in Ohio. That is to say 23 in all are identified with the Mississippi Valley, while 58 live in New York; 20 in Pennsylvania; 6 in Massachusetts; 3 in New Jersey; 3 in Rhode Island; 2 in California; 1 in Connecticut, and 1 in Vermont—a total of 94. Does anyone imagine that such a condition can continue? The great Valley will not tolerate it. The present conflict between the railroads and the public will go on until there is a change, and a change there will be, even if it be to government ownership.

But the country as a whole instinctively feels that government ownership is incompatible with our republican institutions. It would mean an office-holding oligarchy, which would dominate the government itself, in politics, finance and policy. The history of government-owned railroads in other countries is well known. Their failures are disastrous enough to make our country pause, and no one as yet seriously advocates this ruinous experiment. If the Government owned and operated the railroads they would be the happy hunting ground of ignorant voters and crooked politicians.

Meanwhile the Valley, dissatisfied, restless and groping for a remedy, is grinding the railroads down to a basis of despair. State legislatures and state commissions vie in the work, while the Interstate Commerce Commission tries to steer between the Scylla and Charybdis of public attack on one side, and railroad bankruptcy on the other. The *surface* symptoms of the existing railroad malady are the interminable disputes over railroad rates, physical valuation, "watered" stock, excessive bonded debts, swollen fortunes and unearned increment. But the real source of all the trouble lies in the malformed "control." The Valley almost unconsciously feels that its safety demands control of its railroads. It seeks a "perfect impersonal transportation machine." It knows that the Vanderbilt family and the Philadelphia railroad oligarchy are not impersonal; neither is J. J. Hill in his domination of the Great Northern and Northern Pacific; nor Kuhn, Loeb & Co., to whom George Gould relinquished control of the Missouri Pacific system. On the contrary, they are intensely personal—self-elected autocrats, controlling

the public use of public highways. Certainly *they* do not represent the public, and their case is not exceptional, for not one of the American railroads is an "impersonal transportation machine."

Various methods of handling the transportation problem have been tried. First we had free-handed railroading; then combination railroading; then forced competitive railroading, and at last regulated railroading, which is now breaking down under the load of public dissatisfaction and crippled railroad finances. The next experiment will be government railroading with all its attendant evils, unless legitimate public demands are met in some other way. Does anyone imagine that the American people will tolerate the present condition of affairs permanently? Certainly the "Valley" will not stand it, and the "Valley" has the power to enforce its just demands for it has the votes which control legislation.

Meanwhile what is the result of the process by which the railroads are now being ground between the upper and nether millstones—between public demands and eastern investors? The victims cannot pay even their pressing debts, except by renewal at high rates of interest; much less can they raise from \$500,000,000 to \$750,000,000 a year for imperative extensions and improvements. Talk with any railroad man in charge of the finances and he will tell you that it is difficult to raise money; that it can be obtained only in Wall Street; that exorbitant interest and commissions have to be paid; and that many companies cannot get it at all. High grade first mortgage railroad bonds in 1905 sold at an average price of 103, but today those same bonds are selling at an average price of 81¾. Even the Pennsylvania Railroad has had trouble in financing its necessities, nervously scratching the bottom of its strong box for the remnants of its unissued underlying first mortgage bonds. The New York Central recently issued \$100,000,000 debentures bearing 6% interest. Other railroad craft have nailed down the hatches and are scudding under bare financial poles, and of course, this cannot continue. 42,000 miles of railroads are in receivers' hands. This is over one-sixth of the entire railway mileage of the United States, and is a greater mileage than has ever before been in receivers' hands in this country. As the *Railway Age Gazette* says in its issue of October 1, 1915, "this is a record of insolvency unparalleled in history." With the British Government paying 5½% for an immense loan of \$500,000,000 in New York, and offering to take another \$500,000,000 on the same terms, how can the railroads expect to do any financing on a basis that will not add to their already enormous burdens? The present situation is a deadlock. The public is dissatisfied; investors are afraid; the railroads are

nearly bankrupt; each and all send up the Macedonian cry: "Come over and help us." Meanwhile the Interstate Commerce Commission, in a bewildered sort of way, is trying to keep the leaky craft from foundering, by granting a little increase of railroad rates here and refusing it there, because the public are against the railroads and will not tolerate the substantial increase that is imperative under present conditions. And all this will continue until the question of "control" is settled. Is not industrial peace better than such a conflict? Is it not better to let the control of its own railroads go to the Valley than to have government ownership? Would not the South have been better off if it had accepted the value of its slaves before the war? Would it not have been better for both sides?

In an article published in the "Yale Law Journal" for March, 1915, the writer advocated applying to the railroads of the country the Federal Reserve Bank plan. Letters received recently from public men, as well as private individuals, have induced him to draught a proposed Act of Congress to put that plan into effect. The Bill is appended to this article. This idea of a federal holding company to control the railroads was first proposed by the writer in the preface to the fifth edition of his work on corporation law in 1908, and was elaborated in the preface to the sixth edition in 1913. In fact the present railroad companies themselves are holding companies in large part. The Interstate Commerce Commission reports that on June 30th, 1913, of the total outstanding railroad stocks aggregating \$8,610,611,327, no less than \$3,488,487,570 was held by the railroad corporations themselves.

By the proposed Bill appended hereto five "Regional Railroad" corporations are incorporated by Act of Congress—one for New England; one for the District between New York and Chicago; one for the South; one for the District between Chicago and San Francisco; and one for the Northwest. The New England Federal Railroad Company would acquire control, by purchase or condemnation, of the stock of the New Haven Railroad system and other roads in that District. The Central Federal Railroad Company would acquire control of the Pennsylvania, New York Central, Erie, Baltimore & Ohio, Chesapeake & Ohio, and local roads. The Southern Federal Railroad Company would do the same as to the Southern Railroad and local roads. The Northwestern Federal Railroad Company would control the Chicago, Milwaukee & St. Paul, the Chicago and Northwestern, the Great Northern, the Northern Pacific and local roads. The Central Pacific Federal Rail-

road Company would do the same as to the Union Pacific, the Atchison, Topeka & Santa Fé, the Southern Pacific and local roads.

It is not intended that all this should be done at once. The first step would be to acquire control of eight roads only, namely, the Pennsylvania, New York Central, Illinois Central, Chicago, Milwaukee & St. Paul, Chicago & Northwestern, Union Pacific, Atchison, Topeka & Santa Fé and Southern Pacific. The control of other railroad systems and companies would be acquired gradually. Some of them would be ignored until the market value of their outstanding stock reflected their earning capacity. This would allow New Haven stock to recover from the orgy of its officers, and permit certain other "dropsied" railroad stocks to fall. They must first work out their own salvation. Even railroad stockholders themselves will at times turn out railroad directors, when for many years the burning coal of duty has lain upon the tortoise back of their conscience.

Again, under the provisions of the proposed Bill, the Board of Directors of each Federal Railroad Company would consist of nine, at least six to be residents of their respective Districts; three designated by the Federal Railroad Board hereinafter mentioned, and six to be selected from the district by the stockholders of these five federal corporations. Voting by proxy would be allowed, but the proxies would run to the Federal Railroad Board.

A fixed dividend on the stock of these Federal Railroad Companies would be guaranteed by the United States Government; the Government owning all profits in excess of those dividends. This guaranteed stock would be issued from time to time, in large or small amounts, as suited the times. The rates of dividend on different issues would vary, sometimes three per cent, sometimes two and a half, or three and a half, or even four (the rate, of course, on each issue, when once fixed, not to be varied thereafter on that particular issue), just as issues of railroad bonds vary in rates of interest and amounts issued, according to the needs of the times. Whatever the rate, it certainly would be much less than the railroad corporations now pay, because the Government guaranty would be back of it. Furthermore in these days of all kinds of exorbitant taxes a Government issue, free from all taxes, would appeal very strongly to every class of the community. The present three per cent bonds of the Government now sell at 101%, notwithstanding the present phenomenally low price of all railroad securities.

A Federal Railroad Board, not incorporated, is provided for by the Bill, to consist of six members; five to be appointed by the President and approved by the Senate and the sixth to be a member of the Cabinet, a "Secretary of Railroads." This Federal Railroad

Board would determine interstate railroad rates and service and pass upon all issues of stock and financial operations of the five Federal Railroad Companies. For instance if a rate were too high or too low the Board would change it, without two years of investigation and then two years of deliberation and then several years of litigation. The time has come for a change. Commission regulation, as a complete and final remedy, is an absolute failure.² Had not the public demanded that Commission rule be given a trial, that kind of rule would have been declared unconstitutional long ago, as an illegal delegation of discretionary legislative power.

Such are the chief features of the Bill. Its constitutionality is clear. Congress has power over interstate commerce and may aid interstate commerce in this way. That was precisely what it did for the Pacific Railroads in the sixties.

Each Federal Railroad Company by owning a majority of the stock of the existing railroad corporations in its territory would control the annual elections of those companies and could elect their directors. For instance the Northwestern Federal Railroad Company would acquire by purchase, exchange or condemnation, a little more than half of the stock of the Great Northern Railroad Company, and would thereupon elect its directors and thus control that entire system. The Federal Railroad Companies could be relied upon to name proper directors of the existing railroad corporations. The *control* of those companies would accordingly be vested in a new body of men, namely, the directors of the "Federal Railroad Companies" operating under federal charters.

Is there anything strange or revolutionary in taking the control away from Wall Street bankers, private families and speculators, in order to place it in the hands of the public? The present system of controlling vast systems of railroads would be a joke, were it not so tragic in losses to investors, disturbance to industry, and interminable conflict between the corporations and the public. Hawley, when he died, had control of the Chesapeake & Ohio Railroad Company by

² The eminent railway economist, Mr. W. M. Ackworth, in an article in the *Economic Journal* published in London, September, 1915, said, in regard to the Interstate Commerce Commission:

"In July, 1914, after an inquiry extending over more than twelve months, the majority of that Commission solemnly re-affirmed their refusal of three years earlier to permit the Trunk Lines to raise their rates. Under the compulsion of gross and palpable fact they reversed that decision some six months later. But it is safe to say that for every dollar Jim Fisk stole from the Erie—and he stole a good many—the inhabitants of the United States lost a million in the months succeeding July, owing to financial depression and trade dislocation consequent primarily on the unintelligent appreciation of the situation by the Interstate Commerce Commission."

a mere "shoestring of stock." Gates acquired control of the Louisville & Nashville by a speculative coup and promptly sold it. Vanderbilt in 1909 owned less than 8% of New York Central stock; Hill owned only 7% of the Great Northern. A syndicate controlled the Union Pacific and Southern Pacific by less than 1% of the stock. Ask yourself: "*Why should they have control?*" Have they inherited the divine right of Kings? If the Federal Reserve Bank Act is practicable (and certainly it has proven itself so far) a Federal Railroad Act is equally practicable to place "control" in new hands where the public is represented and protected. Who controls the New Haven today? The writer does not know. It is like the trail of wild geese in the air, the geese being the stockholders. Isn't it high time that there was some public control? Comes there no solution from Washington? Are we to have nothing but investigations and prosecutions? Are we to be allowed to drift helplessly and hopelessly into government ownership? Certainly stock control is beyond the powers of the Interstate Commerce Commission. August 17th, 1915, the Interstate Commerce Commission, in reviewing the Rock Island affair, said the record emphasized "the need of railway directors who actually direct." But how are you going to get directors "who actually direct?" For ten years we have heard that cry with no answer but an echo. Present control without responsibility means "dummies" and scandals; inefficiency and neglect of duty; waste and bankruptcy. Even the leading railroad organ in the United States realizes at last that the present control of railroads has got to go. August 27th, 1915, the Railway Age Gazette said:

"There is no way to keep unscrupulous financiers out of the railway business. * * * There is a flagrant defect in the government of a country whose laws permit a man or a set of men to acquire autocratic control of a property by any means except actual purchase of at least a majority interest in it with their own money."

Well said, but where can you find "a man or set of men" who have money enough to buy the majority of the stock of the great railroad systems? Men of wealth great enough to buy a majority of the stock of even *one* railroad system are too old and rich to undertake the care and responsibility and risk of running the railroads, *under present circumstances*. In fact, Wall Street itself is side-stepping.

The Railway Age Gazette also says, "Alton, New Haven, Frisco, and some more; and now Rock Island. What next?" Yes, my

friend, "What next?" The present system will continue to breed schemes and scandals, until it is sent into Limbo and makes way for something new—not necessarily this plan—but something new, even if it be government ownership.

The acquisition of "control" by the proposed Federal Railroad Companies does not require all of the stock, nor even half of the stock. As the Government's brief in the Union Pacific case said,

"It is a well-known fact that one holding less than a majority of the stock of a large railway company, and having possession of the transfer books, can easily control the railroad, for the reason that such stock is widely scattered, the full amount is never voted and the officers are in position to procure proxies and thus vote stock enough to control at meetings."

If the Interstate Commerce Commission should some day publish a statement showing the amount of stock held by railroad directors, it would create a sensation, for it would demonstrate the extent to which American investors are being exploited by the "control."

Let us apply the plan outlined in these pages to eight railroad systems, namely, the Pennsylvania; the New York Central; Illinois Central; Chicago, Milwaukee & St. Paul; Chicago & Northwestern; Union Pacific; Atchison, Topeka & Santa Fé and Southern Pacific. The basic facts are that the entire capital stock of those eight railroads is \$2,155,071,411; the market value \$2,260,123,496; the present dividends \$127,588,038. The proposed Federal Railroad Companies by acquiring a trifle over one-half of that \$2,155,071,411 would thereby become the majority stockholder in those eight trunk line railroad systems and would control the elections and name the directors of those eight railroad companies. In fact the acquisition of forty or even twenty-five per cent of the capital stock of those eight railroads would control their elections in view of the ease of obtaining proxies from other stockholders. But assume that a majority be necessary and is acquired by the proposed Federal Railroad Companies. Then the amount of money required would be one-half of \$2,260,123,496, namely, \$1,130,061,748. Suppose the holding companies issued \$1,130,061,748 of their 3½% government-guaranteed stock by selling it to the public at par. Suppose they used the cash to acquire those railroad stocks by purchase or condemnation. The holding companies would then *receive* one-half of the present railroad dividends, namely, \$63,794,019. The holding companies would *pay out* only \$39,552,161, being 3½% on their \$1,130,061,748 outstanding capital stock. The holding companies

would then have left in their treasuries, as their profit, the difference, namely, \$24,241,858.

And even if the Federal Railroad stocks bore 4% dividends, the Government would be safe. The facts would then be that the Federal Railroad Companies would pay \$45,202,469 of dividends instead of \$39,552,161, leaving still a wide margin below the railroad dividends received, the profit being \$18,591,550, besides having the *control* of those eight railroad systems. *Control*, is the solution: without control you can do nothing, said Morgan, and Morgan knew if any man ever did know. His control, however, and his colossal plans were not conducive to political and individual freedom. Therein different from this.

The operation above described would not mean raising that amount of fresh money by the sale of the government-guaranteed stock. Many of the present railroad stockholders would be very glad to exchange their holdings for the government-guaranteed stock and take a lower rate of income in view of the greater security and in view of the higher market value of the guaranteed stock. In other words they would simply transfer an existing investment from one form into another. Hence the volume of government-guaranteed stock coming upon the market would be far less than might at first be supposed. The credit of the government would not be impaired in the slightest. In all probability the guarantor, the United States Government, would not have to respond to a dollar of its guaranty. With even fairly efficient management the profits from the operation of the railroads would be substantially what they are now, and the present profits are more than sufficient to respond to the proposed guaranty. But even if the Government did have to pay a part of its guaranty, it would be a bagatelle compared with the debts now being incurred by European nations. This country can afford to pay a high price for industrial peace. The wealth of this country in 1912 was \$187,739,000,000—the richest country in the world; the richest country in all history.

And even assuming that all of the stock of all the railroads—good, bad and indifferent—were absorbed, and all of the bonds, notes, etc., of the railroads were acquired under this plan the figures indicate that the railroads would carry themselves. In 1912 those roads were valued by the United States Census Bureau at \$16,149,000,000 and the profits were figured by the Interstate Commerce Commission at \$870,519,371 (exclusive of income from investments). Hence even if the proposed government-guaranteed stock bore 4% dividends, that 4% on the \$16,149,000,000 would be \$645,960,000, which, as compared with the \$870,519,371 profits, shows a safe margin of

\$224,559,371. For the year ended June 30th, 1913, the profits of the railroads were estimated at \$957,676,613. More instead of less. Present rates would seem to be sufficient, if capital could be obtained at a lower rate by means of a government guaranty, and if political attack ceased with a change in control.

Sir George Paish, the eminent English economist, approaching this subject from the standpoint of all American railroad stocks and bonds outstanding in the year ended June 30th, 1911, estimates that an issue of 4% government bonds in exchange for railroad stock might work a saving of \$60,000,000 per annum, and in exchange for or to take up railroad bonds an additional saving of \$70,000,000 per annum—all undivided profits being excluded from this calculation on the theory that such profits were used for improvements and would continue to be so used under any other control or ownership.

The purpose of this plan, however, is not to make money, but to take railroad "control" away from individuals and give it to the public; restore industrial peace and avoid government ownership. Therefore if the above figures should prove to be more or less illusory; or the new control prove to be less economical in management than the present control; or demands for lower rates become irresistible; the wide margin given above and the saving by stopping wasteful competition should insure safety. President Ripley of the Atchison, Topeka & Santa Fé Railroad, a man of broad ideas, recently said that every night five magnificent trains roll out of Chicago for Kansas City on five competing railroads, and that probably one would be sufficient for the traffic, and that six similar trains speed out of Chicago for Omaha every night and five for St. Paul and that here also one would suffice. Four 20-hour trains pass between New York and Chicago daily. Two compete with two. All are due to competition and should be abolished as abominations, dangerous to life and destructive of wealth.

America complains of its rich men living in Europe; of its heiresses marrying foreign titles; of its idle rich squandering American dollars in the capitals of Europe,—eminent apostles of "conspicuous waste,"—but those people think they get something in return, while no intelligent American believes there is any return for railroad waste. It is control fighting control; a divided and competing control that would cease under the proposed plan.

It must be remembered that this plan does not require the acquisition by the proposed Federal Railroad Companies of the entire capital stock of any of the present railroad companies, but only one-

half of such capital stock. Neither does it require the sudden acquisition even of a majority of the stock of any of the existing railroad companies. Such majority would be acquired gradually and the dividends received therefrom would at once take care of the guaranty of the Federal Railroad Companies' stock. Again, this plan does not require the proposed Federal Railroad Companies to pay or acquire or guarantee the outstanding bonds, notes or other obligations of the present railroad companies. It *does* contemplate the acquisition in the near future of a bare majority of the capital stock of the eight railroad systems mentioned above, and of other railroad companies later from time to time when their market value corresponds with the earning capacity of the railroads themselves. It also contemplates leaving in the hands of present investors the minority stock of the present railroad companies and the outstanding railroad bonds, notes and other obligations. As to future requirements of the present railroad companies, money for them would be obtained by the present railroad companies (strengthened as they would be by the control by the Federal Railroad Companies and the guaranty of the Government), or, if necessary, the Federal Railroad Companies could loan it from funds obtained by issuing Federal Railroad Companies' stock, with dividends guaranteed by the government.

The amount of money required by the proposed Federal Railroad Companies to accomplish all this would be comparatively small. The control of the eight great trunk railroad systems mentioned above would be acquired by the Federal Railroad Companies at an expenditure of \$1,130,061,748, as explained above. A majority of the stock of all the remaining railroad companies in the United States would sooner or later be similarly acquired for a sum of money small indeed, in view of the importance of lodging the control of those railroads in new hands representing the public. It would not be necessary to resort to Wall Street to sell the guaranteed Federal Railroad Companies' stock. At present Wall Street is indispensable as a connecting link between investors and the great enterprises. Under this plan its services would be dispensed with in large part, and with them would go the present Wall Street domination of the railroad world. Then the great Wall Street banks would confine themselves to their legitimate business. And that business is of vast importance, because they are as essential to American progress as "The old lady of Threadneedle Street"—the Bank of England—is to British progress.

No harm would come from allowing one-half the capital stock of the present railroad companies to remain in the hands of investors. That would be a wholesome check on any mistakes or extravagances of the Federal Railroad Companies, and decrease the financial burden to be borne by those companies, while it would minimize the risk of guaranteeing dividends to be assumed by the United States Government. This applies also to the present outstanding railroad bonds. It would be unnecessary for the Government to pay off present outstanding railroad bonds. Better terms could be obtained for future railroad loans, if the United States Government stood back of the stock. Railroad financing would be strengthened and made possible on proper terms. Moreover, higher railroad rates, if necessary, would be tolerated.

The writer does not flatter himself that the plan outlined in these pages would inaugurate the Millenium, but its simplicity and ease of adaptability to the gigantic problem now facing the country may commend it. Demands for lower rates would probably continue, even if a Federal Railroad Board had control over rates, but it is one thing for shippers to obtain low rates at the expense of eastern stockholders, while it would be another thing to obtain them at the expense of the whole public, who would be taxed to pay a government guaranty, if rate reductions cut too deep. *Any* control will be disappointing, and the real question is: "Which will be the least so?" The most so would be government ownership. That would result in an enormous annual deficit, besides depriving the states and municipalities of over one hundred million dollars annual taxes, which the above plan would not do. This in addition to the political objections mentioned above.

Finally, we come to the culminating feature of this proposed government-guaranteed stock. It would supply one of the great needs of this country; namely, a stable and unquestionable form of security for the investment of the savings of the people. Savings benefit not only those who accumulate them but the whole country, for they add to the permanent wealth of the nation. Such a government-guaranteed stock would be equal to a United States bond, now the best security in the world. It could be issued in ten dollar shares and would furnish an absolutely safe security for savings—great or small. It would be equivalent to a national savings bank for millions of people. It would be preferred to the existing postal savings bank plan of the United States Government, because it would pay a higher rate of interest with equal security, and would attract the great body of the population to the national industries.

It would be purchased by millions of workmen, trades-people, small manufacturers, small merchants and women who have from ten dollars to a few hundred dollars to invest and desire to be absolutely safe. The holders of the New Haven Railroad stock bought it because of its supposed security and not with any hope of high returns, and yet that income has been swept away. An investment for the savings of the whole country, guaranteed by the national government, would be the best of all stocks and bonds.

The Federal Reserve Bank Act transferred the control of the banks to the public. The Bill annexed hereto would transfer the control of the railroads to the public on practically the same plan. The writer believes that this Bill would nationalize the railroads without costing the Federal Government a dollar, and avoid the perils of government ownership, toward which the Mississippi Valley is hastening against its will.

WILLIAM W. COOK.

New York.

AN ACT TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RAILROAD COMPANIES, TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF RAILROADS IN THE UNITED STATES, AND FOR OTHER PURPOSES.

Sec. 1: Wherever the words "Federal Railroad Company" are used in this Act, the words shall be construed to refer to each of the five corporations to be organized under this Act as herein provided.

The words "Federal Railroad Board" used in this Act shall be construed to mean the Board of six members herein provided for.

The words "Secretary of Railroads" used in this Act shall be construed to be the head, at the seat of government, of an Executive Department to be known as the Department of Railroads, said head to be appointed by the President, by and with the advice and consent of the Senate. Said appointee shall receive a salary of twelve thousand dollars per annum and his term and tenure of office shall be uniform with other members of the Cabinet.

Federal Railroad Districts.

Sec. 2: Continental United States, excluding Alaska, is hereby divided into five Districts, to be known as New England Railroad District; Central Railroad District; Southern Railroad District; Northwestern Railroad District and Central Pacific Railroad District.

The New England Railroad District shall include the New York, New Haven & Hartford Railroad System and all other railroads in New England not controlled by any railroad system in another Federal Railroad District.

The Central Railroad District shall include the Pennsylvania Railroad System; New York Central Railroad System; Erie Railroad System; Baltimore & Ohio Railroad System; Chesapeake & Ohio Railroad System, and all other railroads in the States of Illinois, Indiana, Ohio, Mich-

igan, Pennsylvania, New Jersey and New York, not controlled by any railroad system in another Federal Railroad District.

The Southern Railroad District shall include the Southern Railroad System and Illinois Central Railroad System, and all other railroads in the states of Delaware, Maryland, Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Tennessee, Kentucky, West Virginia and Mississippi, and the District of Columbia, not controlled by any railroad system in another Federal Railroad District.

The Northwestern Railroad District shall include the Chicago, Milwaukee & St. Paul Railroad System; the Chicago & Northwestern Railroad System; the Northern Pacific Railroad System; the Great Northern Railroad System, and all other railroads in the states of Wisconsin, Minnesota, North Dakota, South Dakota, Montana, Wyoming, Idaho, Oregon and Washington, not controlled by any railroad system in another Federal Railroad District.

The Central Pacific Railroad District shall include the Union Pacific Railroad System; the Atchison, Topeka & Santa Fé Railroad System; the Southern Pacific Railroad System, and all other railroads in the states of Iowa, Nebraska, Kansas, Missouri, Arkansas, Louisiana, Texas, Oklahoma, Colorado, New Mexico, Arizona, Utah, Nevada and California, not controlled by any railroad system in another Federal Railroad District.

Any question which may arise as to whether a particular railroad is included within any particular Federal Railroad District shall be decided by the Federal Railroad Board.

Federal Railroad Companies.

Sec. 3: The Federal Railroad Board shall supervise the organization in each of the said Districts of a Federal Railroad Company by nine individuals in each District selected by the Federal Railroad Board, and thereupon such individuals in each District shall under their seals make an organization certificate which shall specifically state the name of such Federal Railroad Company, the territory and extent of the District as defined by states in Section 2 of this Act, the city and state in which its principal office is to be located in said District, the amount of capital stock (\$9,000), and the number of shares into which the same is divided (\$10. each), and the number of shares subscribed for by each incorporator (100). The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of said court or notary, transmitted to the Secretary of Railroads, who shall file, record and preserve the same in his office. Upon the filing of such certificates with the Secretary of Railroads as aforesaid, each of the said Federal Railroad Companies shall become a body corporate, and as such and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal; to have succession in perpetuity, unless it is sooner dissolved by an Act of Congress or unless its franchise becomes forfeited by some violation of law; to make contracts; to

sue and to be sued in any court of law or equity; to appoint by its board of directors, such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees; to prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed; to exercise such incidental powers as shall be necessary to carry out the purposes of this Act.

Second. To acquire, hold and exercise the power of ownership of any or all of the shares of the capital stock and bonds and other obligations of any or all railroad companies within its District as aforesaid; also to construct, acquire, maintain and operate railroads within its District; also to issue shares of its capital stock from time to time, either for cash or in exchange for shares of stock or bonds or other obligations of any and all railroad corporations within its District, on such basis of exchange as may be authorized by its board of directors; also to issue shares of its capital stock from time to time for such purposes (including its own expenses and disbursements) connected with or incidental to the control, acquisition, construction, management, use and development of railroads, railroad business and railroad stocks, bonds or other obligations already issued or hereafter to be issued by railroad companies within its District (including the issue of Federal Railroad Company stock, to provide money to enable any railroad company in its District to pay or purchase outstanding obligations or to pay for past or future improvements, equipment or extensions, stock of such Railroad Company being issued to the Federal Railroad Company in consideration of such money), as may be determined by its board of directors; also to exercise the power, which is hereby given to it, of eminent domain, to acquire any shares of the capital stock of any and all railroad corporations within its District or to acquire any railroads themselves or railroad property or property for railroad purposes, in its District whenever in its opinion it is necessary or advantageous to it to do so by condemnation under judicial process, and the United States District Court or courts of the District wherein such stock or property is located shall have jurisdiction of proceedings for such condemnation. The practice, pleadings, forms and modes of proceedings in causes arising under the provisions of this Act shall conform as near as may be, to the practice, pleadings, forms and proceedings existing at the time in like causes in the courts of record of the State within which such District Courts are held, any rule of the court to the contrary notwithstanding.

Third. To vote its own holdings of stock and to solicit proxies from other stockholders to vote their holdings of stock in any railroad corporation in its District, and such vote of such stock and proxies by the Federal Railroad Company for directors in said railroad corporation or corporations shall be limited to persons who shall have resided within the District for at least nine months in each of the five years prior to the election, and have been actively engaged during said five years in the District in commerce, agriculture or some other industrial pursuit, or in the practice of a profession.

Sec. 4: At least six members of the board of directors of each Federal Railroad Company shall for at least nine months of each of the preceding two years have resided in the District in which he is chosen director. No Senator or Representative in Congress shall be an officer or director of a Federal Railroad Company. No director of a Federal Railroad Company shall be an officer, director, or employee of any railroad company. Any director of any Federal Railroad Company may be removed at any time for cause by the Federal Railroad Board. The board of directors of each Federal Railroad Company shall consist of nine members, three of whom shall be designated by the Federal Railroad Board and six of whom shall be selected by the stockholders of the Federal Railroad Company in meeting assembled. The first board of directors shall consist of the nine incorporators and shall hold office for six months after incorporation. Voting by proxy at an election of a Federal Railroad Company shall be allowed, but all proxies shall run to and be voted by the Federal Railroad Board free from instructions in voting such stock. The stock shall be voted as follows: the owner of ten shares or less shall have one vote; the owner of from ten to and including forty-nine shares shall have two votes; the owner of from forty-nine to and including one hundred shares shall have three votes; the owner of from one hundred to and including two hundred shares shall have four votes; the owner of over two hundred shares shall have five votes and no more. The directors of each Federal Railroad Company shall receive such compensation as the board of directors may determine in advance in each instance, subject to the approval of the Federal Railroad Board. The board of directors of each Federal Railroad Company shall at its first meeting (after its first board retires from office) designate three directors to serve one year from the next first day of January, and three for two years, and three for three years (one of the three directors named by the Federal Railroad Board to be in each class), and thereafter all directors shall hold office for three years. Vacancies in the board shall be filled by the remaining directors. Each Federal Railroad Company shall every three months make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Stock Issues and Guaranty of Dividends.

Sec. 5: The capital stock of each Federal Railroad Company shall be divided into shares of Ten Dollars each. The outstanding capital stock may be increased from time to time as authorized by the board of directors. When the capital stock of any Federal Railroad Company shall have been increased, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase of capital stock. The shares shall be represented by certificates which shall be transferable.

Sec. 6: Dividends on the stock of each Federal Railroad Company shall not exceed an amount fixed for each issue when made, such amount being the amount of dividend guaranteed by the United States Government as hereinafter provided.

Sec. 7: The United States Government hereby guarantees the payment of dividends on the shares of the stock of the several Federal Railroad Companies to the amounts specified on the certificates for said stock as originally authorized by the board of directors of the particular Federal Railroad Company, and the Secretary of the Treasury is hereby authorized and directed to sign the name of the United States of America to a guaranty to that effect on the face of the certificates of stock issued by the corporation (the guaranty on cancelled certificates to be cancelled when the certificates are cancelled by transfer), the form of said guaranty to be as follows (the rate of dividend guaranteed being filled in in each instance) :

The United States of America hereby guarantees to the record holder of this certificate of stock the payment by the Federal Railroad Company issuing the same.% annual dividends on the shares of the capital stock represented by this certificate payable semi-annually on the first days of January and July of each year after the date of this guaranty.

If at any time the United States of America by Act of Congress ceases to pay said guaranty, the United States of America shall pay to the holders of said certificates of stock the price at which they were originally issued or the value at the time of issue of the property for which they were originally issued.

Sec. 8: The United States Government shall be entitled to all the profits of the several Federal Railroad Companies in excess of said guaranteed dividends and shall apply such excess profits to extensions and improvements, or purchase of railroad bonds or stock, or reduction of rates, or retirement of stock issued hereunder, or for any other purpose said Government may deem best in connection with the railroads.

Sec. 9: National banks and Federal Reserve Banks may invest and deal in the shares of stock of the said Federal Railroad Companies or any of them, and such shares may be transferred to and deposited with the Treasurer of the United States in lieu of United States bonds as prescribed by sections 5159 to 5189, inclusive, of the Revised Statutes of the United States as amended and by section 4, sub-division "Eighth" of the "Federal Reserve Act," and may be deposited with the Treasurer of the United States as security for deposits by said Treasurer of funds of the United States in national banks, and may be deposited as security for and in accordance with the Act of Congress of May 30, 1908, amending the national banking laws. The board of trustees established by Act of Congress of June 25, 1910, to establish postal savings depositories may invest postal savings funds in such shares as securities of the United States within the meaning of that Act. Said shares of the capital stock of said Federal Railroad Companies or any of them shall be receivable at par as a satisfactory collateral security for Federal reserve notes and as a reserve available as eligible paper under the "Federal Reserve Act" and as investments by Federal Reserve Banks. Said

Federal Railroad Companies, their stock and property and the income to their stockholders from the guaranteed dividends, shall be exempt from federal, state and local taxation and license fees.

Sec. 10: The Federal Railroad Companies shall proceed with all reasonable dispatch to acquire sufficient of the outstanding capital stock of the Pennsylvania; New York Central; Illinois Central; Chicago, Milwaukee & St. Paul; Chicago & Northwestern; Union Pacific; Atchison, Topeka & Santa Fé and Southern Pacific Railroad Systems, to control those railroad companies; each Federal Railroad Company so to acquire the stock of any of said railroad system or systems within its District. Such acquisition may be by purchase or by exchange of Federal Railroad Company's stock for the stock of said railroad system or systems, or by condemnation proceedings.

Federal Railroad Board.

Sec. 11: A Federal Railroad Board is hereby created which shall consist of six members, one to be the Secretary of Railroads and the remaining five members to be appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the said five members of the Federal Railroad Board not more than one shall be selected from any one Federal Railroad District. The said five members shall devote their entire time to the business of the Federal Railroad Board and shall each receive an annual salary of twelve thousand dollars payable monthly, together with actual necessary traveling expenses. No Senator or Representative in Congress shall during his term of office, or for five years thereafter be a member of the Federal Railroad Board. The members of the said Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position or employment in any railroad company, and shall not, during that time, hold or own stock therein. At least one of said five members shall be a person experienced in the management and operation of railroads. One member shall be designated by the President to serve for two years; one for four; one for six; one for eight; and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Whenever a vacancy shall occur, whether by expiration of term or otherwise, among the said five members of the Federal Railroad Board, a successor shall be appointed by the President with the advice and consent of the Senate to fill such vacancy. The President shall have power to fill all vacancies that may occur on the Federal Board during the recess of the Senate by granting commissions which shall expire thirty days after the next session of the Senate convenes. Of the five members thus appointed, one shall be designated by the President as Governor and one as Vice-Governor of the Federal Railroad Board. The Governor of the Federal Railroad Board, subject to its supervision, shall be the active executive officer. A majority of the members at a meeting duly called shall constitute a quorum and a majority of those present at such meeting shall be sufficient for affirmative action. The

salaries and expenses of the Federal Railroad Board shall be paid by the Federal Railroad Companies in proportion to the respective outstanding capital stock of each from time to time. The Federal Railroad Board shall annually make a full report of its operations to the Speaker of the House of Representatives who shall cause the same to be printed for the information of the Congress. The Federal Railroad Board shall have power to examine at its discretion the accounts, books and affairs of each Federal Railroad Company and to require such statements and reports as it may deem necessary, and shall at all times furnish full information to the public regarding its operations and the operations of each Federal Railroad Company.

Sec. 12: Said Federal Railroad Board is hereby given the power to fix and determine all interstate railroad rates and service, and also such intrastate rates and service as Congress has power to regulate under the Constitution of the United States.

Sec. 13: No stock shall be issued by any Federal Railroad Company except after the approval thereof by the Federal Railroad Board, which Board shall also first approve the use to be made of such stock and the terms of its issue. All financial operations of every Federal Railroad Company shall be approved by the Federal Railroad Board before becoming effective.